

March 21, 2014

**ADDENDUM NO. 1**

**WRITTEN RESPONSES TO QUESTIONS RECEIVED ON THE  
REQUEST FOR PROPOSALS FOR A SMALL/MID CAP GROWTH EQUITY  
INVESTMENT OPTION FOR THE STATE OF  
HAWAII SECTION 457 DEFERRED COMPENSATION PLAN,  
RFP NO. DCP-14-1**

This is to inform you that the Board of Trustees ("**Board**") of the State of Hawaii's ("**State**") Deferred Compensation Plan received the following written questions pertaining to the above-referenced RFP. After careful consideration, the Board hereby responds to these questions as follows:

- Q1. Regarding Section A. Question 17: State whether the firm has ever been terminated by a section 457 deferred compensation plan, defined contribution plan, or defined benefit plan client. Please explain when, by whom, and under what circumstances. *"For this question, are you looking for a listing of all terminated plans or just public plans?"*
- A1. **The listing should include all terminated plans. However, the list can be limited to those terminations that occurred within the past three (3) years.**
- Q2. Regarding Section C. Questions 15 and 16:
15. Is the investment strategy that you are proposing currently available on Prudential's administrative platform (i.e., does your firm have a trading agreement in place for the specific investment vehicle that you are proposing)?
16. If your proposed investment strategy is not currently on Prudential's administrative platform, describe your willingness to work with Prudential to get a trading agreement in place;  
*"Although different vehicle types (i.e. mutual fund, commingled, separate account) are listed as acceptable, are you more apt to select a fund vehicle rather than a separate account so that it may be available via the Prudential platform?"*
- A2. **The Board is seeking an investment vehicle that provides the best pricing structure, regardless of the type of investment vehicle.**
- Q3. *"Does the State of Hawaii Deferred Compensation Plan Board have a preference as to the investment vehicle to be used for the SMID-Cap Growth mandate?"*
- A3. **No. Please refer to Q&A # 2.**
- Q4. *"With regards to RFP No. DCP-FY-14-1, is the State of Hawaii Deferred Compensation Plan open to considering a Small Cap Growth Equity strategy that is managed against*

*the Russell 2000 Growth Index; or is this search specifically for products that are managed against the Russell 2500 Growth Index? Our firm manages a Small Cap Growth Equity Mutual Fund which meets the items cited in the 'Scope of Work' section, beginning on page 8 of the RFP. Please let us know if this type of vehicle and strategy would be acceptable for this search."*

**A4. The Board's preference is for a SMID Cap Growth product. A small cap growth product that satisfies the criteria outlined in the RFP will not be automatically rejected.**

**Q5.** In regards to section C. General Investment Option Information, Question #16 reads: If your proposed investment strategy is not currently on Prudential's administrative platform, describe your willingness to work with Prudential to get a trading agreement in place.

- "1. Can you elaborate on Prudential's role, i.e., custodian, record-keeper.*
- 2. Does having a trading agreement with Prudential require that all trades are executed through Prudential, i.e. is this a directed brokerage arrangement?"*

**A5. 1. Prudential Retirement is the Third Party Administrator for the State of Hawaii Deferred Compensation Plan ("Plan") and is responsible for providing educational, record-keeping, and custodial services to the Plan.**

**2. In general, all trades involving the Plan's core investment options are executed through Prudential. Transactions that are done through the Plan's brokerage window are executed by the Prudential Investment Management Services LLC ("PIMS").**

**Q6.** *"As it relates to a mutual fund, will you please clarify what type of information you would like for item III.C.3? For example, would you like us to report on the change in net asset value (NAV) from quarter to quarter?"*

**A6. Section III.C.3 relates to presentations by the investment product providers to the Board at one of the Board's semi-annual meetings. In general, the Board has used a panel forum in which current investment product providers make a presentation on a particular topic in the industry (e.g., the economy, market outlook, etc.). The Board may also ask investment product providers to make presentations about their respective investment products.**

**Q7.** *"As it relates to a mutual fund, will you please clarify what type of information you would like for item III.C.5? Typically the TPA would enter into a selling agreement with us and there would be a shareholder servicing fee paid to them (shares are not redeemed)."*

- A7. **There is no item III.C.5 in the RFP. Thus, it is not clear what information needs to be clarified.**
- Q8. We have a team that manages our SMID Cap Growth, Small Cap Growth and Mid Cap Growth strategies using the same philosophy and process with minor adjustments made for market capitalization. The team's leader has consistently applied the same approach in managing portfolios of SMID, small and mid capitalization growth stocks for the last 25 years. Across the three strategies as of 12/31/13, the team managed \$3.3 billion, \$109 million of which was in the SMID Cap Growth strategy.
1. *"Will you please confirm that our firm meets requirement III.B.2.a that the firm shall have 'at least \$500 million in assets under management (includes all investment vehicles for the proposed strategy)'?"*
  2. *"If not, will you please amend requirement III.B.2.a to read that the firm shall have 'at least \$100 million in assets under management (includes all investment vehicles for the proposed strategy)'?"*
- A8. **The Board is seeking a SMID Cap Growth strategy with vehicle assets in excess of \$500 million. The goal of this requirement is to avoid the Plan representing a significant portion of an investment manager's mutual or commingled fund. They do not view small, SMID and mid cap strategies as being part of the same single investment strategy.**
- Q9. The market capitalization range for new purchases in our SMID Cap Growth strategy is \$300 million - \$6 billion. We trim holdings as they reach \$9 billion-\$10 billion in market capitalization. We sell positions completely when their market capitalizations exceed \$12 billion. We believe this makes our strategy a true small/mid capitalization strategy.
- In the eA Small-Mid Cap Growth Equity Universe as of 12/31/13, the smallest median market capitalization was \$1.2 billion, the average was \$3.5 billion and the largest was \$6.8 billion. The median market capitalization of our SMID Cap Growth strategy as of 12/31/13 was \$4.7 billion, which we believe is comparable to our peers.
- "Will you please amend requirement III.B.2.e to include strategies with higher median market capitalizations (e.g., \$1 billion-\$7 billion)?"*
- A9. **The RFP will not be amended. A strategy with a median market capitalization in excess of \$1 billion will not automatically be rejected, if the investment manager can demonstrate its process and historical results have high correlation to the SMID Cap Growth style.**

Q10. Our insurance providers will not permit the inclusion of a statement in our policies or on our certificate of insurance indicating that coverage will not be canceled, limited in scope of coverage or non-renewed unless at least thirty (30) calendar days written notice has been given. If awarded a contract by the State, our firm can agree to provide prompt notice of such changes to the State as soon as we become aware of them. *"Will you please amend the RFP to remove item VI.K.1.b.1?"*

A10. **Yes, this section of the RFP will be amended to read:**

**"K. Insurance**

- 1. Upon notice of contract award, the CONTRACTOR shall maintain insurance acceptable to the STATE in full force and effect throughout the term of the Contract as follows...."**

Q11. We are unable to name the State of Hawaii Deferred Compensation Plan as an additional insured on our professional liability insurance coverage. We can, however, name the State of Hawaii Deferred Compensation Plan as an additional insured on our commercial general liability insurance coverage. *"Will you please amend the RFP to remove item VI.1.b.2"*

A11. **An amendment to this section of the RFP is noted in Q&A # 10.**



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WAYNE L. CHU  
Chairperson  
Board of Trustees  
State of Hawaii  
Deferred Compensation Plan